Natural Sciences and Engineering Research Council of Canada Quarterly Financial Report for the Quarter Ended June 30, 2015

Statement Outlining Results, Risks and Significant Changes in Operations, Personnel and Programs

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1. Introduction

The Natural Sciences and Engineering Research Council of Canada (NSERC) was established in 1978 by the *Natural Sciences and Engineering Research Council Act*, and is a departmental corporation named in Schedule II of the *Financial Administration Act*. NSERC's purpose is to help make Canada a country of discoverers and innovators for the benefit of all Canadians, by supporting postsecondary students and postdoctoral fellows in their advanced studies, promoting discovery by funding the research programs of academic researchers, and stimulating partnerships between academia and industry. Further information on the NSERC mandate and program activities can be found in Part II of the Main Estimates.

This Quarterly Financial Report (QFR) has been prepared by management as required by section 65.1 of the *Financial Administration Act* and in the form and manner prescribed by the Treasury Board. This quarterly report should be read in conjunction with the Main Estimates and Supplementary Estimates for 2015-16.

Basis of Presentation

This quarterly report has been prepared by management using an expenditure basis of accounting. The accompanying Statement of Authorities includes NSERC's spending authorities granted by Parliament and those used by the agency, consistent with the Main Estimates and Supplementary Estimates for the 2015-16 fiscal year. This quarterly report has been prepared using a special-purpose financial reporting framework designed to meet financial information needs with respect to the use of spending authorities.

The authority of Parliament is required before monies can be spent by the Government. Approvals are given in the form of annually approved limits through appropriation acts or through legislation in the form of statutory spending authorities for specific purposes.

When Parliament is dissolved for the purposes of a general election, section 30 of the *Financial Administration Act* authorizes the Governor General, under certain conditions, to issue a special warrant authorizing the Government to withdraw funds from the Consolidated Revenue Fund. A special warrant is deemed to be an appropriation for the fiscal year in which it is issued.

NSERC uses the full accrual method of accounting to prepare and present its annual financial statements that are part of the departmental performance reporting process. However, the spending authorities voted by Parliament remain on an expenditure basis.

This quarterly report has not been subject to an external audit or review.

2. Highlights of Fiscal Quarter

Statement of Authorities

Available Authorities

As of June 30, 2015, NSERC's total available authorities for 2015-16 amounted to $1.087 million. To date, for 2015-16, total authorities have increased by $23.3 million (2.2%) over the prior year, with $22.3 million coming from an increase in NSERC's grant and scholarship programs, and $1 million from increased authorities for operating expenditures, statutory funding authority for the respending of revenue and employee benefits. The changes in available authorities are the result of previous federal budget announcements that impact both the operating authorities (vote 1), and the grant and scholarship program authorities (vote 5) in the current fiscal year. The net changes between the current and previous fiscal year comprise the following elements:

- An increase of **$15 million** to augment support for advanced research in the natural sciences and engineering (Budget 2014);
- An increase of **$6.9 million** to support the Canada Excellence Research Chairs program, aimed at attracting and retaining the world's most accomplished and promising minds (Budget 2011);
- An increase of **$3.3 million** for the Centres of Excellence for Commercialization and Research program—a tri-agency initiative to create a more effective and efficient way to identify commercialization opportunities;
- An increase of **$0.5 million** due to the end of a transfer to the International Development Research Centre, for the International Research Initiative on Adaptation to Climate Change;
- An increase of **$0.2 million** for the Business-Led Networks of Centres of Excellence program, due to an increase in the proportion of natural sciences and engineering-related research across the Network;
- An increase of **$0.2 million** in statutory authority for the spending of revenues pursuant to subsection 4.2 of the Natural Sciences and Engineering Research Council Act;
- An increase of **$0.1 million** in support of the Innovation Enhancement Grants program to increase innovation at the community and/or regional levels by enabling Canadian colleges to increase their capacity to work with local companies;
- A decrease of **$1.5 million** for the support of the Canadian Light Source initiative due to a reduction in the amount transferred from the National Research Council;

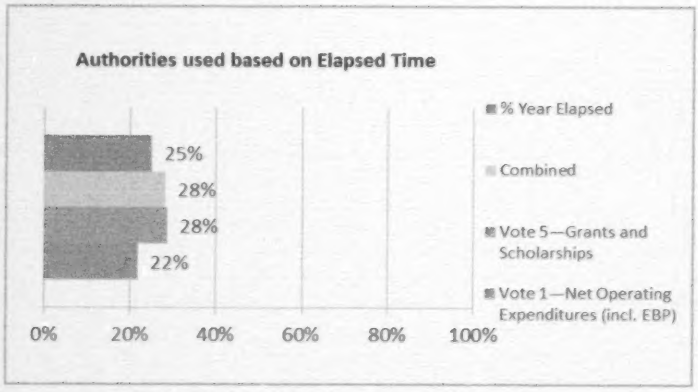
- A decrease of **$1.1 million** following the end of transfer agreements with other government departments (Natural Resources Canada and Fisheries and Oceans Canada);
- A decrease of **$0.2 million** in operating funds due to the transfer—to the Canadian Institutes of Health Research—of the administration of the Secretariat on Responsible Conduct of Research; and
- Other variances of less than **$0.1 million** include the reduction in the Council's operating budget from government cost-effectiveness initiatives. These items include the transfer to the Canada School of Public Service, the Web Renewal Initiative and the Back-Office Transformation Initiative.

Authorities Used in the First Quarter

This QFR reflects the results of the current fiscal period in relation to the 2015-16 Main Estimates, Supplementary Estimates (A) (SEA), for which full supply was approved by Parliament on June 19, 2015.

The total authorities used during the first quarter of 2015-16 amounted to $305.9 million (28% of the total available authorities; 28% of total authorities used for grant and scholarship programs; and 22% for operating expenditures and employee benefits) The expenditures are $8.2 million more than at the end of the same quarter in the previous fiscal year. This increase is principally related to grant and scholarship programs. The increase in grant and scholarship expenditures is the net result of previously expanded program authorities in specific programs, increasing demand in some programs and payment timing differences between the first and second quarters of the comparative fiscal years, which are expected to offset by year-end.

Grant and scholarship payments vary between periods due to the competition cycles and results of peer-reviewed programs and multi-year award profiles. Operating expenditures cover personnel and other operating expenses required to support the delivery of grant and scholarship programs. Expenditures related to the employee benefit plan are accounted for separately in statutory authorities. Although the majority of personnel expenditures and other operating costs are incurred in a consistent manner throughout the fiscal year, the balance of expenditures, including temporary employees hired for the peak competition season and travel costs for peer reviewers, are tied to the program cycle and are demand driven. As a large proportion of program competitions occur in the final quarter of the fiscal year, the operating expenditures in each of the first three quarters are typically less than 25% of the annual operating available authorities.



Statement of Departmental Budgetary Expenditures by Standard Object

Variation in Amounts Available for Use in 2015-16

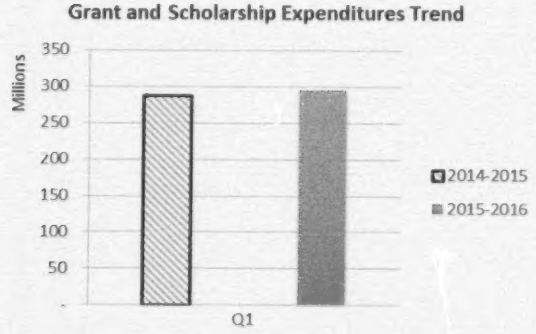
As described in the Available Authorities section, NSERC's parliamentary authorities have increased by $23.3 million to date in 2015-16 over the previous year, with the bulk of this increase attributable to the increase in authorities for transfer payment programs ($22.3 million).

Transfer Payment Expenditures (Grants and Scholarships)

First Quarter Grant and Scholarship Expenditures

Transfer payments represent 95.6% of NSERC's available authorities. Variations occur in transfer payment expenditures between quarters due to the nature of program cycles. During the first quarter of 2015-16, NSERC's transfer payment expenditures have increased by $8.6 million compared with the same quarter of the previous fiscal year. There are a number of differences in specific programs from year to year:

- an increase of **$3.8 million** over the previous year related to timing differences on payments for the Networks of Centres of Excellence;
- an increase of **$2.4 million** over the previous year related to some expanded program authorities in the Collaborative Research and Development Grants and an increase in the number of projects funded;
- an increase of **$2.4 million** over the previous year in the College and Community Innovation Program related to a timing difference on payments between years;
- an increase of **$2.2 million** over the previous year related to some expanded program authorities for Centres of Excellence for Commercialization and Research Programs;
- an increase of **$1.7 million** over the previous year related to some expanded program authorities in the Canada Excellence Research Chairs Program; and
- a decrease of **$3.9 million** over the previous year in the Collaborative Research and Training Experience Program due to a timing difference on payments.

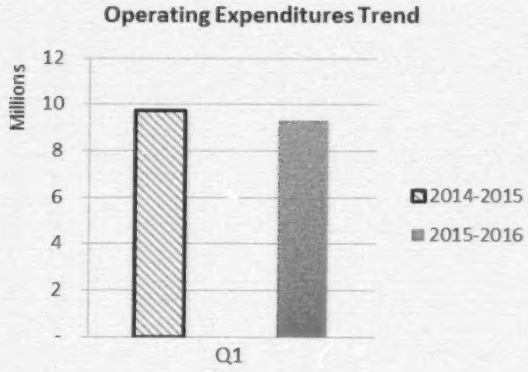


First Quarter Personnel Expenditures

Personnel expenditures in support of program delivery account for the largest proportion of NSERC's planned operating expenditures (approximately 72% of available operating authorities and planned operating expenditures for 2015-16). The personnel expenditures for the first quarter of 2015-16 are generally in line with the comparable expenditures of the prior year. The decrease of $1.116 million, under the standard object "Other subsidies and payments," is due to a prior year one-time transition payment for implementing salary payment in arrears by the Government of Canada.

First Quarter Non-Personnel Operating Expenditures

Non-personnel operating expenditures include all other operating costs related to the support of program delivery, a significant proportion of which relates to program competitions that take place predominantly during the final quarter of the fiscal year. Total non-personnel expenditures to date in 2015-16 are generally consistent with the prior year. Increased expenditures ($165,000) for rentals during the first quarter of this fiscal year, related to the timing of payment for software licensing that did not occur in the comparative period of the previous fiscal year. Increased expenditures ($171,000) during the first quarter of this fiscal year for transportation and communication, related to increased site visits compared to the prior fiscal year.



3. Risks and Uncertainties

Funding and Program Delivery Risk Factors

Through the corporate risk identification exercise, the risks that have a potential financial impact or that deal with financial sustainability have been assessed. The impact on NSERC and the planned mitigation strategies related to these risks are discussed below.

External Risk Factors

NSERC is funded through annual parliamentary spending authorities and statutory authorities for program transfer payments (grant and scholarship programs) and for its supporting operating expenditures. As a result, its program activities and operations are impacted by any changes to funding approved through Parliament. Accordingly, program delivery can be affected by factors such as the economic and political

climate, technological and scientific development, and evolving government priorities, which impact approved resource levels (total available authorities).

Research and innovation are part of global trends; therefore, participation in NSERC programs is influenced not only by the Canadian context, but also by initiatives and opportunities worldwide. Formal communications and external relation strategies are developed by NSERC to ensure that stakeholder relationships and expectations are managed effectively and that NSERC has fulfilled identified research and innovation needs.

There is also the risk that NSERC fails to achieve its mandate and strategic outcomes. To mitigate this risk, an integrated planning process is firmly in place. This process serves as the foundation for NSERC to plan all aspects of its business in an integrated manner and to align priorities and resources accordingly.

Internal Risk Factors

In order to ensure stakeholder engagement and to mitigate the risk of misrepresenting our stakeholders' priorities and values, a group of institution representatives, NSERC Leaders, was created. NSERC Leaders provide an ongoing channel of communication between their institutions and NSERC, helping parties stay abreast of developing issues. This open dialogue permits the relay to universities of information on new policy and program developments. For their part, NSERC Leaders are able to gather information and ideas from the university community, feeding into the development of NSERC policies and programs. In addition, NSERC 2020, the Council's 5-year Strategic Plan, was developed following extensive consultation with the research community.

NSERC is a knowledge-based organization that relies on maintaining its talented and committed workforce to deliver its programs. To retain its valuable human resources and their corporate memory, NSERC is developing a human resources strategy that outlines the organization's commitments and action plan for developing talent and for building and sustaining a thriving and successful workplace and work culture. NSERC is challenged by the ability to hire the skilled resources needed to successfully achieve the transformation and realignment agendas to meet tomorrow's needs. Potential consequences could include workload management issues and succession planning challenges.

NSERC is transforming its business in order improve external client service and increase efficiencies.

Thus far, NSERC has achieved operational efficiencies through economies of scale by the shared administrative service arrangements with the Social Sciences and Humanities Research Council of Canada; corporate-wide prioritization and harmonization or reduction of activities; internal reallocations; and a focus on streamlining and generating efficiencies wherever possible. An established budgetary process with regular in-year budget reviews and formal reallocations for emerging priorities approved by senior management supports this endeavour. NSERC is also undertaking a revision of its operating and grant delivery systems and processes to generate further efficiencies and future savings.

NSERC is a lean agency in terms of operating funding provided to deliver existing and expanding programs (less than 5% of total resources). This efficiency is in part due to the thousands of volunteer peer reviewers offering their expertise in the rigorous evaluation of funding applications. In addition, NSERC is pursuing business transformation to enhance resource decision-making.

4. Significant Changes Related to Operations, Personnel and Programs

A number of important changes, in comparison with the previous fiscal year, relate to operations, personnel and programs. These include the impacts generated by NSERC's increased available authorities, which resulted in the expansion of the Strategy for Partnerships and Innovation program and augmented support for advanced research in the natural sciences and engineering.

Another notable source of change was the December 2014 launch of the Government of Canada's new strategy, *Seizing Canada's Moment: Moving Forward in Science, Technology and Innovation 2014*. This strategy provided NSERC with an overarching direction for the development of its five-year strategic plan: *NSERC 2020*. The NSERC strategic plan was developed following extensive consultation with stakeholders, and details its strategic goals for the next five years.

These strategic goals are:

- fostering a science and engineering culture in Canada;
- building a diversified and competitive research base;
- bridging the generational gap;
- strengthening the dynamic between discovery and innovation; and
- going global.

The implementation of this strategy will begin in fall 2015, and will result in some operational changes over the course of the year.

Approved by:

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Ottawa, Canada
August 13, 2015